

Minutes of the Meeting of the College Savings Program Board

Held in the State Treasurer's Conference Room, Third Floor
1 South Pinckney Street
Madison, Wisconsin

November 9, 2009
1:00 p.m.

MEMBERS PRESENT: *Sheehy (by phone), Wegenke, Oemichen, Adamski, Darling, Cook, Sass, Johnson, Durcan*

MEMBERS ABSENT: *Rosen, Plale*

OTHERS PRESENT: Marty Olle, EDVEST Program; Michael Wolff, DOA; Sarah Henriksen, Shane Martwick and Tom Bewar, Wells Fargo Funds Management; Chris Pegelow and Ron Giordan, Treasurer's Office; Jay Risch, Sen. Darling's staff; Matt Tomasicchio and Katie D'Angelo, KPMG (by phone); Linda Schlissel, EAI (by phone); Andrea Feirstein (by phone).

I. Call to Order and Roll Call – The meeting was called to order at approximately 1:00 p.m. by Board Chair *Darling*. (See above for attendance.)

II. Approval of Agenda - The Chair asked for approval of the Agenda, which was unanimously approved by voice vote.

III. Public Presentations - None were requested.

IV. Approval of Minutes for October 09, 2009 Meeting – *Oemichen moved* and *Wegenke* seconded that the minutes of the October 9, 2009 Board meeting be approved. Motion passed unanimously by voice vote.

V. Administrative Reports

- A. Board Chair Comments** – *Darling* commented that the search for a new Program Director is underway and will be discussed by Treasury staff.
- B. State Treasurer Comments** – *Sass* stated that this year's coloring, essay and video contests have been launched as part of Higher Education Day and winners will be announced in November and January. Representatives from the Office of State Employment Relations [OSER] will be joining the meeting later to address the Director search.
- C. Program Director Comments** – *Olle* said he is waiting for a response from Department of Revenue staff regarding the issue of moving the state tax deduction deadline to April 15. He discussed highlights from a series of spreadsheets and graphs relating to program growth, revenues and expenditures in the third quarter. He summarized the Annual Report for the fiscal year ending June 30. This report goes to the Governor and legislative leadership and presents highlights for the

previous year, program statistics and recommendations for improvements. *Darling* requested that the report be made available to all legislators, who may choose to publicize the program in legislator newsletters. Wegenke moved and Durcan seconded to approve the report. Passed on a voice vote.

- D. **Manager [Wells Fargo] Comments** – *Henriksen* noted the U.S. Treasury has issued a report for Vice President Biden's Middle Class Task Force, which recommends that 529 plans add more age-based index funds, eliminate any home-state bias by eliminating restricted state tax deductions, improve transparency in reporting and statistics gathering and improve monitoring and compliance to reduce the potential for abuse. She mentioned that they have added more investing basics content to the EdVest website and a new portfolio selector tool to help investors find the right portfolio for their needs. In discussing the status of the bank and credit union CD portfolios, she noted that nearly half of the credit union portfolio assets are in the money market fund because of low need for liquidity among credit unions and little interest in issuing CDs in the large denominations used by EdVest. *Adamski* said the CD Working Group is aware of this issue and intends to follow up on it in the near future, through non-legislative solutions.

VI. **Old Business**

- A. **Investment Advisor Services Contract** – *Olle* reported that the procurement process is complete and Evaluation Associates Inc. was the unanimous recommendation of the Evaluation team. He will proceed with drawing up a new three year contract with EAI.
- B. **Strong Funds Settlement** – *Olle* reviewed the history of the Strong settlement with the SEC and the extent of EdVest and *tomorrow's scholar* investors with holdings in the Strong Growth Fund at the time of the infractions [2002 and 2003]. The Distribution Plan, recently approved by the SEC, considers Wisconsin's 529 plan an "Omnibus Accountholder" and as such is given considerable flexibility in how the settlement funds may be distributed to investors. The settlement amount is expected to be approximately \$390,000 for EdVest and \$400,000 for *tomorrow's scholar*. The potential cost of identifying specific investors, allocating their individual share of the settlement, locating the investors and issuing and mailing thousands of checks of minimal value could easily exceed the value of the settlement. He recommended an option that would reduce future program expenses for all current EdVest and *tomorrow's scholar* investors for several years. After discussion of the recommendation, Cook suggested and Darling moved to petition the Distribution Consultant to use Wisconsin's 529 program's share of the settlement funds to create a foundation to provide matching grants or other assistance to low and moderate-income families for future college expenses. If the proposal is denied or deemed unacceptable, the Board chooses the fourth distribution plan option, using the settlement to offset plan expenses such as audit fees otherwise payable by participants. Durcan seconded the motion and it passed unanimously. [Subsequent research by *Olle* revealed that the SEC has repeatedly denied use of settlement funds for low-income or other groups not related to the original investors involved in the settlement. Therefore, he will proceed with the alternate proposal.]
- C. **Program Director Vacancy Update** – Deputy Treasurer Chris Pegelow, Linda Brennan and Brenda Sedmak from the Office of State Employment Relations discussed the status of the Director search. They distributed an updated position description and the job announcement and discussed recruitment strategy and the exam. The top ten candidates will be interviewed. They discussed requirements for the rating panel for the position and asked for nominations for the interview panel. *Johnson* asked for verification that a candidate, if excellent, could qualify for a salary

outside the posted range. Ms. Sedmak responded that the maximum of the posted range is the maximum that can be awarded at appointment, and if a broader range is needed it must be approved prior to posting the job. The board expressed surprise at this, having discussed a broader range at the previous meeting and believing there was enough flexibility in the process to accommodate a higher start salary if needed. After considerable discussion, it was agreed that OSER would provide more information for "Hiring Above the Minimum" [HAM] as soon as possible and the Treasurer's Office would pursue approval if it could be accomplished without significantly delaying the recruitment. *[Note: Additional research by the Deputy Treasurer after the meeting led to the conclusion that HAM approval would be very unlikely at this point and the best alternative was to continue with the recruitment as planned. If a qualified candidate cannot be found at the current pay range, the Treasurer's Office will apply for HAM approval and re-post the position.]*

VII. New Business

- A. Independent Auditor Report** – Matt Tomasicchio and Katie D'Angelo from KPMG reported on the results of the June 30 financial audit for the EdVest and *tomorrow's scholar* programs and the agreed upon procedures report that they carried out. They stated that the audit of the nineteen portfolios went very well, and they were able to issue their unqualified opinion about the audit. Tomasicchio discussed the details of the audit, and said that KPMG found no material weaknesses in internal controls. There was no reason to go into executive session to discuss any aspects of the audit. *Adamski* moved and *Wegenke* seconded a motion to accept the fiscal year audit for 2009. Motion passed unanimously by voice vote.
- B. Discussion of Low/Moderate Income Participation** – *Andrea Feirstein* presented a brief overview of scholarship and matching grant mechanisms that other states are using with their 529 programs. Topics included setting the objective, establishing criteria for selection, decision/policy-making and finding funds. The board will continue this discussion at future meetings as part of initiatives to increase participation among low and moderate-income families.
- C. Third Quarter 2009 Investment Performance** – *Linda Schlissel* discussed third quarter performance, which was led by strong returns in the market. The great majority of EdVest and tomorrow's scholar portfolios outperformed their benchmarks year-to-date. She discussed recommendations for the "Watchlist" funds, and *Johnson* moved that the Legg Mason Aggressive Portfolio and underlying funds Legg Mason Special Investment Trust and Wells Fargo International Equity Fund remain on the Watchlist until 3/31/10. *Wegenke* seconded and the motion passed unanimously.
- D. Initial Discussion of Investment Policy and Structure/ Investment Committee** - *Schlissel* summarized the new project she is working on with the Investment Committee, looking at the range of investment options in the program and whether they are still appropriate and comprehensive. She will have recommendations to further develop the investment policy and performance data and will be bringing information to the board at the next meeting. It will include a policy statement covering the goals and objectives of the range of options offered by the program. *Johnson* added that this project is part of a natural evolution of the program, establishing a standard way of documenting goals and objectives of the program. He looks forward to involving Wells Fargo and getting their perspective and recommendations at the Investment Committee meeting in January.

- E. **Marketing Committee Update** – *Sheehy* thanked Sarah Henriksen for preparing detailed information on marketing expenditures for the year and the final quarter, broken out by media type, geographical area and month. *Darling* offered to do a conference call to discuss in more detail and to answer questions.
- F. **2010 Board Meeting Dates** – After discussion of meeting alternatives, the group chose the 2010 dates February 8, May 10, September 13 and November 8. All times are 1:00 p.m.

VIII. Adjournment — The Chair adjourned the meeting at approximately 3:17 p.m. upon a motion by Oemichen, seconded by Wegenke and passed by unanimous voice vote.